
HOUSE BILL 1421

State of Washington

54th Legislature

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By Representatives Sheldon, Foreman, Johnson, Hatfield, Buck, Grant, Schoesler, Chappell, Basich, Kessler, Morris, Skinner, Thompson, Campbell, Costa, Hargrove, Chandler, Mastin, Wolfe and Quall

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1 AN ACT Relating to business incentives for distressed areas;
2 amending RCW 82.60.010, 82.60.040, 82.60.045, 82.62.010, and 82.62.030;
3 reenacting and amending RCW 82.60.020; and adding new sections to
4 chapter 82.04 RCW.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 **Sec. 1.** RCW 82.60.010 and 1985 c 232 s 1 are each amended to read
7 as follows:

8 The legislature finds that there are several areas in the state
9 that are characterized by very high levels of unemployment and poverty.
10 The (~~legislative~~ legislature) legislature further finds that
11 economic stagnation is the primary cause of this high unemployment rate
12 and poverty; that new state policies are necessary in order to promote
13 economic stimulation and new employment opportunities in these
14 distressed areas; and that policies providing incentives for economic
15 growth in these distressed areas are essential. For these reasons, the
16 legislature hereby establishes a tax deferral program to be effective
17 solely in distressed areas and under circumstances where the deferred
18 tax payments are for investments or costs that result in the creation
19 of a specified number of jobs. The legislature declares that this

1 limited program serves the vital public purpose of creating employment
2 opportunities and reducing poverty in the distressed areas of the
3 state.

4 **Sec. 2.** RCW 82.60.020 and 1994 sp.s. c 7 s 704 and 1994 sp.s. c 1
5 s 1 are each reenacted and amended to read as follows:

6 Unless the context clearly requires otherwise, the definitions in
7 this section apply throughout this chapter.

8 (1) "Applicant" means a person applying for a tax deferral under
9 this chapter.

10 (2) "Department" means the department of revenue.

11 (3) "Eligible area" means: (a) A county in which the average level
12 of unemployment for the three years before the year in which an
13 application is filed under this chapter exceeds the average state
14 unemployment for those years by twenty percent; (b) a metropolitan
15 statistical area, as defined by the office of federal statistical
16 policy and standards, United States department of commerce, in which
17 the average level of unemployment for the calendar year immediately
18 preceding the year in which an application is filed under this chapter
19 exceeds the average state unemployment for such calendar year by twenty
20 percent; (c) a designated community empowerment zone approved under RCW
21 43.63A.700; (d) a town with a population of less than twelve hundred
22 persons in those counties that are not covered under (a) of this
23 subsection that are timber impact areas as defined in RCW 43.31.601; or
24 (e) a county designated by the governor as an eligible area under RCW
25 82.60.047.

26 (4)(a) "Eligible investment project" means that portion of an
27 investment project which:

28 (i) Is directly utilized to create at least one new full-time
29 qualified employment position for each three hundred thousand dollars
30 of investment on which a deferral is requested in an application
31 approved before July 1, 1994, and for each seven hundred fifty thousand
32 dollars of investment on which a deferral is requested in an
33 application approved after June 30, 1994; and

34 (ii) Either initiates a new operation, or expands or diversifies a
35 current operation by expanding, equipping, or renovating an existing
36 facility with costs in excess of twenty-five percent of the true and
37 fair value of the facility prior to improvement. The lessor/owner of
38 a qualified building is not eligible for a deferral unless the

1 underlying ownership of the buildings, machinery, and equipment vests
2 exclusively in the same person, or unless the lessor by written
3 contract agrees to pass the economic benefit of the deferral to the
4 lessee in the form of reduced rent payments.

5 (b) For purposes of (a)(i) of this subsection, the number of new
6 full-time qualified employment positions created by an investment
7 project shall be deemed to be reduced by the number of full-time
8 employment positions maintained by the recipient in any other community
9 in this state that are displaced as a result of the investment project.

10 (c) "Eligible investment project" does not include any portion of
11 an investment project undertaken by a light and power business as
12 defined in RCW 82.16.010(5), other than cogeneration projects that are
13 both an integral part of a manufacturing facility and owned at least
14 fifty percent by the manufacturer, or investment projects which have
15 already received deferrals under this chapter.

16 (5) "Investment project" means an investment in qualified buildings
17 or qualified machinery and equipment, including labor and services
18 rendered in the planning, installation, and construction of the
19 project.

20 (6) "Manufacturing" means all activities of a commercial or
21 industrial nature wherein labor or skill is applied, by hand or
22 machinery, to materials so that as a result thereof a new, different,
23 or useful substance or article of tangible personal property is
24 produced for sale or commercial or industrial use and shall include the
25 production or fabrication of specially made or custom made articles.
26 "Manufacturing" also includes computer programming, the production of
27 computer software, and other computer-related services, and the
28 activities performed by research and development laboratories and
29 commercial testing laboratories.

30 (7) "Person" has the meaning given in RCW 82.04.030.

31 (8) "Qualified buildings" means structures used for manufacturing,
32 warehousing, and research and development activities, including plant
33 offices and warehouses or other facilities for the storage of raw
34 material or finished goods if such facilities are an essential or an
35 integral part of a factory, mill, plant, or laboratory used for
36 manufacturing, warehousing, or research and development. If a building
37 is used partly for manufacturing or research and development and partly
38 for other purposes, the applicable tax deferral shall be determined by

1 apportionment of the costs of construction under rules adopted by the
2 department.

3 (9) "Qualified employment position" means a permanent full-time
4 employee employed in the eligible investment project during the entire
5 tax year.

6 (10) "Qualified machinery and equipment" means all new industrial
7 and research fixtures, equipment, and support facilities that are an
8 integral and necessary part of a manufacturing, warehousing, or
9 research and development operation. "Qualified machinery and
10 equipment" includes: Computers; software; data processing equipment;
11 laboratory equipment; manufacturing components such as belts, pulleys,
12 shafts, and moving parts; molds, tools, and dies; operating structures;
13 and all equipment used to control or operate the machinery.

14 (11) "Recipient" means a person receiving a tax deferral under this
15 chapter.

16 (12) "Research and development" means the development, refinement,
17 testing, marketing, and commercialization of a product, service, or
18 process before commercial sales have begun. As used in this
19 subsection, "commercial sales" excludes sales of prototypes or sales
20 for market testing if the total gross receipts from such sales of the
21 product, service, or process do not exceed one million dollars.

22 (13) "Warehouse" means a structure in excess of one hundred
23 thousand square feet used for the storage of merchandise or commodities
24 for eventual distribution and sale on a multicounty, national, or
25 international basis.

26 **Sec. 3.** RCW 82.60.040 and 1994 sp.s. c 1 s 3 are each amended to
27 read as follows:

28 (1) The department shall issue a sales and use tax deferral
29 certificate for state and local sales and use taxes due under chapters
30 82.08, 82.12, and 82.14 RCW on each eligible investment project that:

31 (a) Is located in an eligible area other than a designated
32 (~~neighborhood reinvestment area~~) community empowerment zone approved
33 under RCW 43.63A.700;

34 (b) Is located in any county if seventy-five percent of the new
35 qualified employment positions are to be filled by residents of a
36 contiguous county that qualifies as an eligible area; or

37 (c) Is located in a designated (~~neighborhood reinvestment area~~)
38 community empowerment zone approved under RCW 43.63A.700, or in a

1 county containing such a (~~neighborhood reinvestment area~~) community
2 empowerment zone, if seventy-five percent of the new qualified
3 employment positions are to be filled by residents of the
4 (~~neighborhood reinvestment area~~) community empowerment zone.

5 (2) The department shall keep a running total of all deferrals
6 granted under this chapter during each fiscal biennium.

7 **Sec. 4.** RCW 82.60.045 and 1994 sp.s. c 1 s 4 are each amended to
8 read as follows:

9 In addition to the other requirements of this chapter, a recipient
10 of a tax deferral under RCW 82.60.040(1) (b) or (c) shall meet the
11 following requirements:

12 (1) The recipient shall fill at least seventy-five percent of the
13 new qualified employment positions with residents of the contiguous
14 county or (~~neighborhood reinvestment area~~) community empowerment zone
15 by December 31 of the calendar year during which the department
16 certifies that the investment project is operationally completed, and
17 shall maintain the required percentage during each of the seven
18 succeeding calendar years.

19 (2) If the deferral is for expansion or diversification of an
20 existing facility, the recipient shall ensure that the percentage of
21 qualified employment positions filled by residents of the contiguous
22 county or (~~neighborhood reinvestment area~~) community empowerment zone
23 for periods prior to the application be maintained for seven calendar
24 years after the year during which the department certifies that the
25 investment project is operationally completed.

26 **Sec. 5.** RCW 82.62.010 and 1994 sp.s. c 7 s 705 are each amended to
27 read as follows:

28 Unless the context clearly requires otherwise, the definitions in
29 this section apply throughout this chapter.

30 (1) "Applicant" means a person applying for a tax credit under this
31 chapter.

32 (2) "Department" means the department of revenue.

33 (3) "Eligible area" (~~means:—(a) A county in which the average~~
34 ~~level of unemployment for the three years before the year in which an~~
35 ~~application is filed under this chapter exceeds the average state~~
36 ~~unemployment for those years by twenty percent; (b) a metropolitan~~
37 ~~statistical area, as defined by the office of federal statistical~~

1 ~~policy and standards, United States department of commerce, in which~~
2 ~~the average level of unemployment for the calendar year immediately~~
3 ~~preceding the year in which an application is filed under this chapter~~
4 ~~exceeds the average state unemployment for such calendar year by twenty~~
5 ~~percent; (c) a designated community empowerment zone approved under RCW~~
6 ~~43.63A.700; or (d) subcounty areas in those counties that are not~~
7 ~~covered under (a) of this subsection that are timber impact areas as~~
8 ~~defined in RCW 43.31.601)) has the meaning given in RCW 82.60.020.~~

9 (4)(a) "Eligible business project" means manufacturing or research
10 and development activities which are conducted by an applicant in an
11 eligible area at a specific facility, provided the applicant's average
12 full-time qualified employment positions at the specific facility will
13 be at least fifteen percent greater in the year for which the credit is
14 being sought than the applicant's average full-time qualified
15 employment positions at the same facility in the immediately preceding
16 year.

17 (b) "Eligible business project" does not include any portion of a
18 business project undertaken by a light and power business as defined in
19 RCW 82.16.010(5) or that portion of a business project creating
20 qualified full-time employment positions outside an eligible area or
21 those recipients of a sales tax deferral under chapter 82.61 RCW.

22 (5) "Manufacturing" means all activities of a commercial or
23 industrial nature wherein labor or skill is applied, by hand or
24 machinery, to materials so that as a result thereof a new, different,
25 or useful substance or article of tangible personal property is
26 produced for sale or commercial or industrial use and shall include the
27 production or fabrication of specially made or custom made articles.
28 "Manufacturing" also includes computer programming, the production of
29 computer software, and other computer-related services, and the
30 activities performed by research and development laboratories and
31 commercial testing laboratories.

32 (6) "Person" has the meaning given in RCW 82.04.030.

33 (7) "Qualified employment position" means a permanent full-time
34 employee employed in the eligible business project during the entire
35 tax year.

36 (8) "Tax year" means the calendar year in which taxes are due.

37 (9) "Recipient" means a person receiving tax credits under this
38 chapter.

1 (10) "Research and development" means the development, refinement,
2 testing, marketing, and commercialization of a product, service, or
3 process before commercial sales have begun. As used in this
4 subsection, "commercial sales" excludes sales of prototypes or sales
5 for market testing if the total gross receipts from such sales of the
6 product, service, or process do not exceed one million dollars.

7 **Sec. 6.** RCW 82.62.030 and 1986 c 116 s 17 are each amended to read
8 as follows:

9 (1) A person shall be allowed a credit against the tax due under
10 chapter 82.04 RCW of an amount equal to (~~one~~) two thousand dollars
11 for each qualified employment position directly created in an eligible
12 business project.

13 (2) The department shall keep a running total of all credits
14 granted under this chapter during each fiscal biennium. The department
15 shall not allow any credits which would cause the tabulation for a
16 biennium to exceed fifteen million dollars. If all or part of an
17 application for credit is disallowed under this subsection, the
18 disallowed portion shall be carried over for approval the next
19 biennium. However, the applicant's carryover into the next biennium is
20 only permitted if the tabulation for the next biennium does not exceed
21 fifteen million dollars as of the date on which the department has
22 disallowed the application.

23 (3) No recipient is eligible for tax credits in excess of three
24 hundred thousand dollars.

25 (4) No recipient may use the tax credits to decertify a union or to
26 displace existing jobs in any community in the state.

27 (5) No recipient may receive a tax credit on taxes which have not
28 been paid during the taxable year.

29 NEW SECTION. **Sec. 7.** A new section is added to chapter 82.04 RCW
30 to read as follows:

31 In computing tax there may be deducted from the measure of tax by
32 those engaged in banking, loan, security, or other financial businesses
33 amounts derived from interest received on loans to bona fide businesses
34 for the purpose of financing an "investment project" under chapter
35 82.60 RCW. As used in this section, "investment project" has the same
36 meaning as in RCW 82.60.020.

1 NEW SECTION. **Sec. 8.** A new section is added to chapter 82.04 RCW
2 to read as follows:

3 (1) There may be credited against the tax imposed by this chapter,
4 the value of state-approved, employer-provided or sponsored job
5 training services designed to enhance the job-related performance of
6 employees, for those businesses eligible for a tax deferral under
7 chapter 82.60 RCW.

8 (2) The value of the state-approved, job training services provided
9 by the employer to the employee, without charge, shall be determined by
10 the allocation of the cost method using generally accepted accounting
11 standards.

12 (3) The credit allowed under this section shall be limited to an
13 amount equal to ten percent of the value of the state-approved, job
14 training services determined under subsection (2) of this section.

15 (4) Prior to claiming the credit under this section, the business
16 must obtain approval of the proposed job training service from the
17 employment security department. The employer's request for approval
18 must include a description of the proposed job training service, how
19 the job training will enhance the employee's performance, and the cost
20 of the proposed job training.

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